Would Your Pay Rise Under 'Medicare for All'? It Depends on the Labor Market

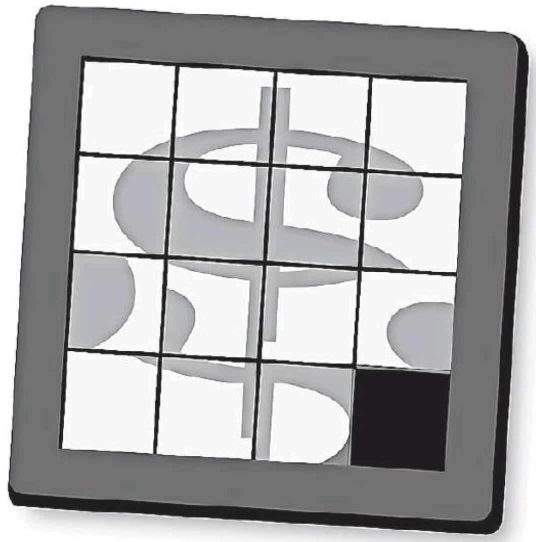
By AUSTIN FRAKT

Hidden in the debate over "Medicare for all" is a fundamental economic question: Who pays for work-based health insurance?

For the 157 million Americans who receive health insurance through their work — or through the job of a spouse or parent — the answer may seem obvious, right on pay stubs: Employers pay most of it, and workers pay some.

Last year, work-based coverage per person cost $7,188, with employees directly contributing 18 percent on average. Family coverage cost $20,576, of which employees paid 30 percent.

But what seems obvious isn't always what's correct. Regardless of what's on your pay stub, many health economists believe that your employer's contribution toward health insurance comes out of your wages.



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So will Medicare for all cause wages to rise if employers have to spend less on benefits? Research suggests the answer is "yes," with the caveat that it may not be matched dollar for dollar for everyone. The precise relationship depends on the nature of the labor market, which varies across markets and jobs.

The economic theory that explains why employees foot the bill for health insurance is this: Whether it's in dollars or health insurance, what matters to workers is the total value of their compensation for work. (There are other workplace benefits, but none anywhere near as costly and important as wages and health insurance.)

In a competitive and fluid labor market — where there are many similar employers and workers, and little difficulty in hiring or switching jobs — an employer that tries to undercut the prevailing market rate risks losing workers to competitors. Likewise, a worker who demands more could well be passed over for another who will accept the prevailing rate for total compensation.

"Yes, an individual worker might get a little more or less than market compensation from time to time," said Steven Pizer, a health economist at the Boston University School of Public Health. "But if employment is fluid, there's just no way, according to the theory, for that to happen consistently."

One option under Senator Bernie Sanders's Medicare for all plan would reduce employer spending on health insurance by $9,000 per employee and raise taxes on the wealthy. Senator Elizabeth Warren's plan would also raise taxes on the wealthy, but would aim to tax employers an amount intended to match what they would have spent on health care anyway.

In a Democratic debate in September, Mr. Sanders differed with former Vice President Joseph R. Biden in saying wages would rise if employers were no longer involved with health benefits. Many Americans are skeptical; in a Kaiser Family Foundation poll, 63 percent said their wages would stay the same if their employers' health costs fell.

Some studies in economics support the theory that employers trade off health insurance premiums for wages almost dollar for dollar. A study in the Southern Economics Journal examined salary and benefits data from the New York Department of Education in the 1970s. Controlling for confounding factors like teaching experience, education, school budget and other benefits, the study found that a dollar increase in the value of health benefits was associated with an 83-cent reduction in salary on average.

But other studies of public-sector employees find little to no evidence of a comparable trade-off between wages and health insurance premiums. One, in The Journal of Health Economics and based on data from more than 6,000 school districts, found that a dollar increase in benefits was associated with a reduction in wages and salaries of only 15 cents.

Another from the same journal, in which the Harvard health economist Michael Chernew is an author, used national surveys of public-sector workers and employers' data and produced similar findings.

Why might premium and wage changes not perfectly offset each other in public-sector jobs? One possibility is unionization, which is more likely in the public than in the private sector. Unionized workers are better able to bargain for higher compensation than individual workers, who are more easily let go and replaced with others. Negotiated contracts could end up with health insurance benefits increasing without offsetting reductions in salary.

"One reason unionized public-sector workers may be unwilling to fully pay for premium increases with reduced wages is that the higher premiums reflect things they do not fully value," Mr. Chernew said. "For example, workers may not be willing to sacrifice already low wages for higher health care prices that don't reflect better health care."

So much for the public sector; what about the private one? Here, many studies suggest closer to a one-to-one trade-off between workplace health insurance premiums and wages. Some of these studies focus on specific benefits, like maternity care, or on different populations, like those with obesity, finding that their higher costs to employers are offset by lower wages.

Other studies examine broader markets. A study in the Journal of Health Economics looked at what happened in Massachusetts after it enacted an employer health insurance mandate in 2006. It found that the $6,100 annual employer cost of coverage was nearly perfectly offset by lower wages. Another study in the Journal of Labor Economics found that married women with workplace health insurance coverage have wages that are lower by about the same amount as their employers pay for that coverage, relative to married women with no such coverage option.

Nevertheless, even in the private sector, there are exceptions, with some studies finding that health care costs for workers are not always perfectly offset by wages. Just as in the public sector, this could happen if the labor market is not perfectly competitive. For instance, to the extent workers cannot find other jobs, they may be forced to pay more for their benefits, either through rising premiums without more pay to compensate for it, or through greater cost sharing.

In other cases, some firms may incur higher health care costs that they cannot pass along to workers without losing them to competitors. Much of the increase in health care costs is because of price growth, perhaps without a commensurate increase in the benefits of care.

"Employees won't value higher prices without increased benefits," said Jeannie Fuglesten Biniek, a health economist and senior researcher at the Health Care Cost Institute. "In such cases, employers will be unable to pass along the full increase in health care costs to workers."

The wage issue is just one of the trade-offs involved with Medicare for all; there are also healthy debates about how much taxes would rise and how much costs would fall.

Ultimately, someone would have to pay for Medicare for all, so not everyone would be better off. But to the extent the cost of health insurance is shifted away from employers and to the federal government under Medicare for all, it seems wages would rise, at least for some people.